

Summary

As of June 18, retail regular-grade gasoline prices in California fell by 31 cents since the previous *Petroleum Watch* to \$4.03 per gallon, while retail diesel prices fell by 33 cents to \$3.97 per gallon. California retail gasoline prices have moved steadily lower, following wholesale prices. Throughout 2012, retail diesel prices have moved more moderately than gasoline prices and remain lower than gasoline prices.

California spot wholesale gasoline prices decreased 19 cents from a month ago to \$3.11 per gallon, a 5.7 percent fall. Prices experienced a significant spike and subsequent decline in response to refinery maintenance. Wholesale diesel fell 18 cents to \$3.02 in response to declining crude oil prices.

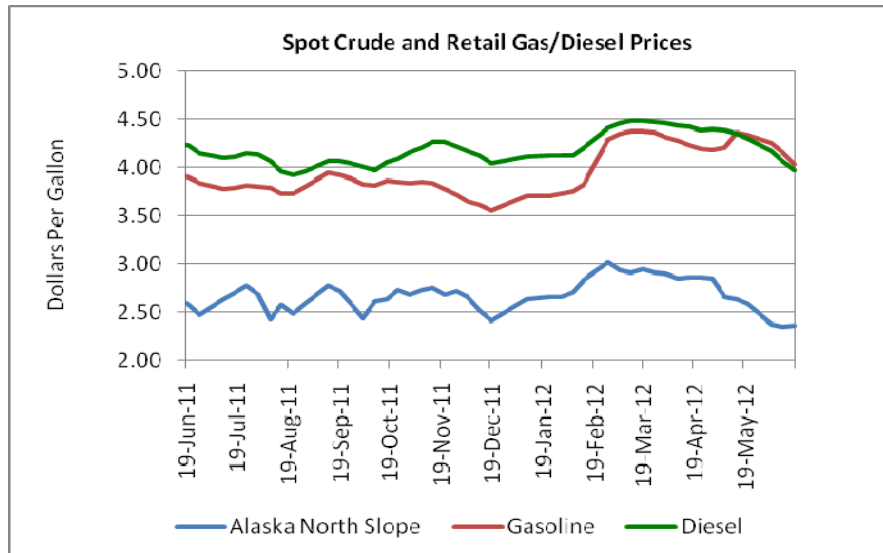
Refinery production and inventories of California-compliant gasoline in California fell by 3.6 percent and 2.8 percent in the past week, respectively. Production and inventories of California-compliant diesel increased in the past week, by 23.5 percent and 24.6 percent, respectively. Recent completion of refinery maintenance has relieved pressure on gasoline and diesel inventories.

A decrease in world crude oil prices put downward pressure on fuel prices over the past month. Brent oil prices have fallen to \$96.59 per barrel while West Texas Intermediate (WTI) prices have fallen to \$83.35 per barrel. As of June 12, Alaska North Slope (ANS) crude oil prices fell to \$99.57, \$10.31 lower than a month ago.

Comparisons of Diesel, Gasoline, and Crude Oil Price Changes

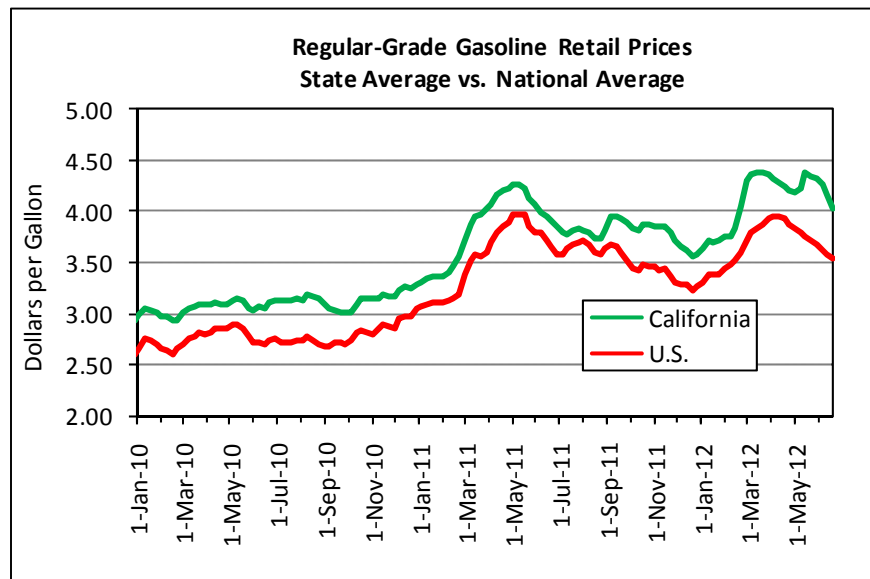
After increasing from January through March 2012, prices began to decline in April. This decline accelerated in May and early June. As of June 18, ANS prices reached \$2.37 per gallon, gasoline prices were \$4.03 per gallon, and diesel prices were \$3.97 per gallon.

Gasoline, ANS, and diesel prices are 32 cents higher, 27 cents lower, and 14 cents per gallon lower, respectively, compared to January 9, 2012. Rising crude oil prices pushed both gasoline and diesel prices up in March; however, gasoline prices increased more than diesel due to refinery outages and the transition from winter to summer blend gasoline. Crude oil price declines over the past three months are passing through to both gasoline and diesel prices, although diesel prices have fallen more than gasoline prices due to refinery maintenance.

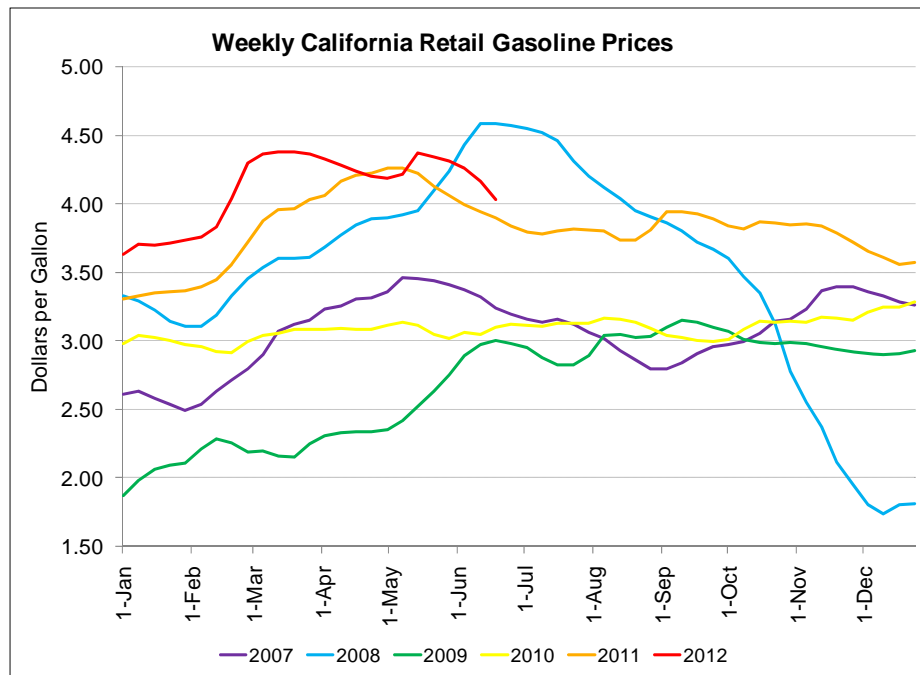


Retail Prices

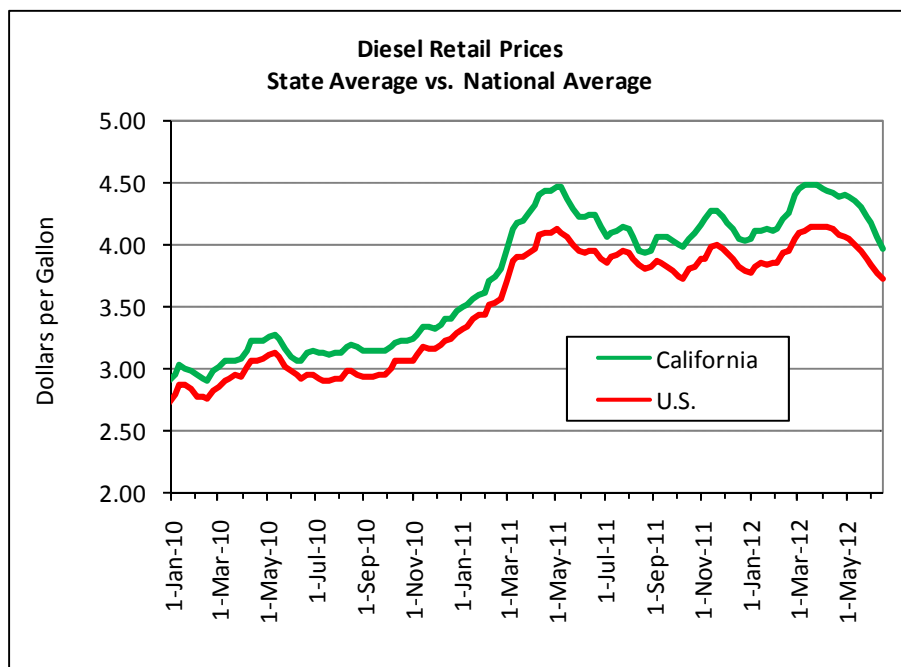
The average California **retail price for regular-grade gasoline** decreased 31 cents over the past month, falling to \$4.03 per gallon, and is 13 cents higher than this time last year.¹ Average U.S. retail gasoline prices decreased 18 cents from a month ago to \$3.53. Average U.S. gasoline prices are 12 cents less than a year ago. The difference between California and U.S. retail gasoline prices fell from 63 cents to 50 cents over the past month, which is 19 cents above the 2009-2011 average of 31 cents per gallon. For the past month, retail prices followed wholesale prices down and are now moving in the same direction as national prices.



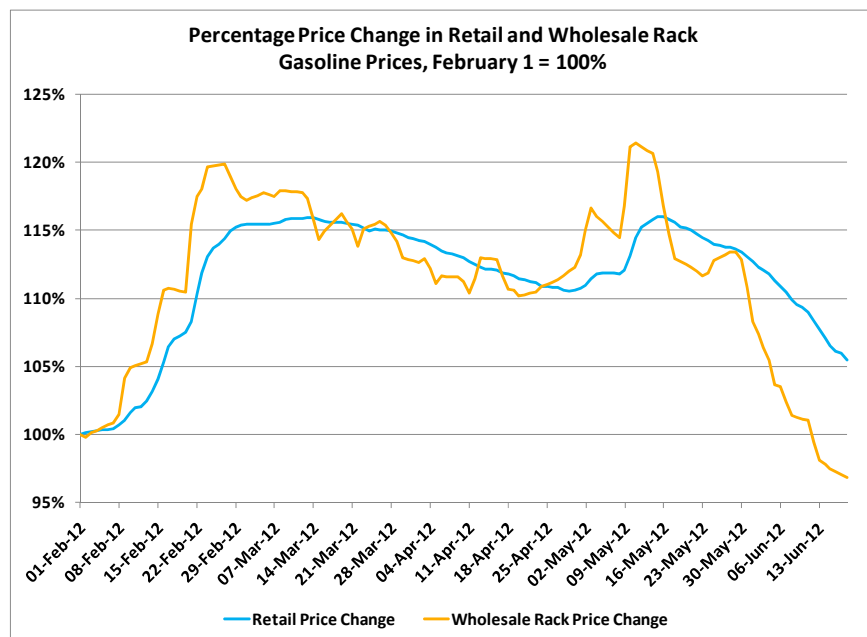
California retail prices continue to remain above 2011 prices, even though they have fallen 34 cents since May 14. Currently retail prices are more than 50 cents below the June 2008 highs.



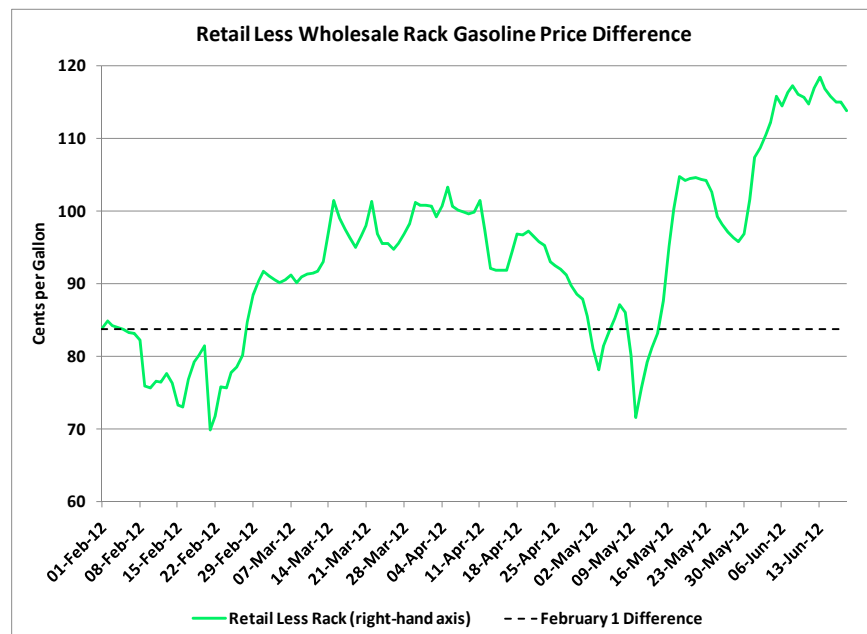
The average California **retail diesel price** fell 33 cents over the past month to \$3.97 per gallon. The average U.S. retail diesel price fell 23 cents over the past month, to \$3.73 per gallon. As a result, the premium for California diesel over U.S. diesel prices decreased 10 cents to 24 cents over the past month. California diesel prices are 27 cents lower than a year ago, and U.S. prices are 22 cents lower. California diesel prices continue to track national prices fairly well and have been less volatile than gasoline prices in 2012.



Retail price changes generally lag wholesale price changes and are less volatile than wholesale prices. This was visible in February when retail prices lagged wholesale prices on the way up and failed to climb as high as wholesale prices. Now retail prices are lagging on the way down after again failing to match the wholesale price peak. As steadily as retail prices have fallen, they have not been able to keep up with the rapid drop in wholesale prices.



The differential between wholesale and retail prices is at a high for 2012. Retail prices have just been able to keep up with the fall in wholesale prices over the past couple of weeks, but have yet to reduce the differential toward more normal levels.

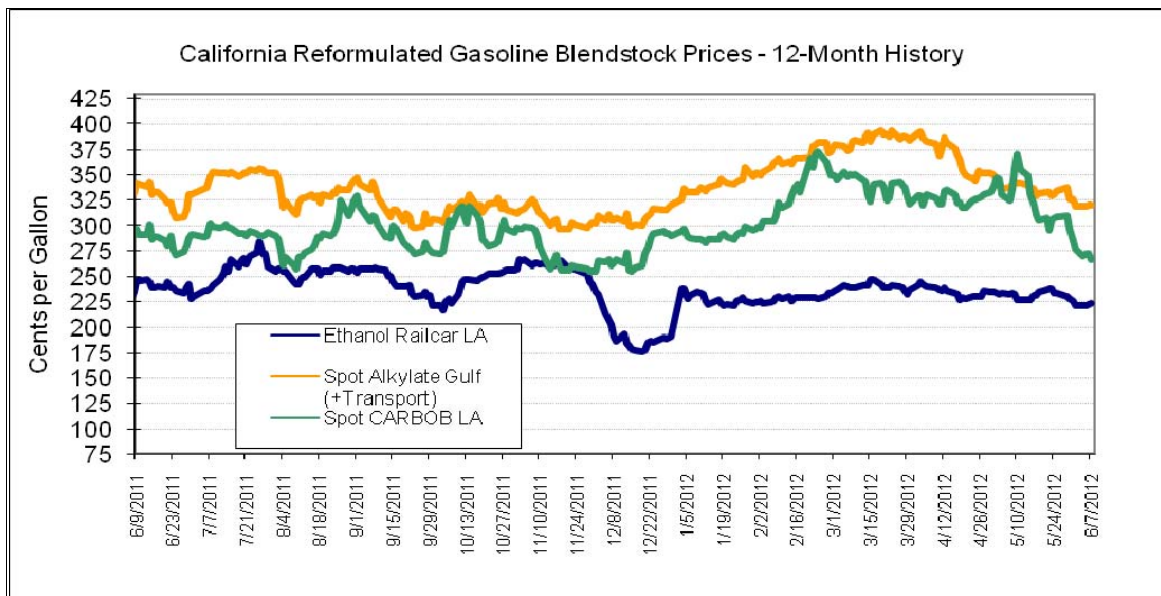


Wholesale Gasoline and Blendstock Prices on June 12

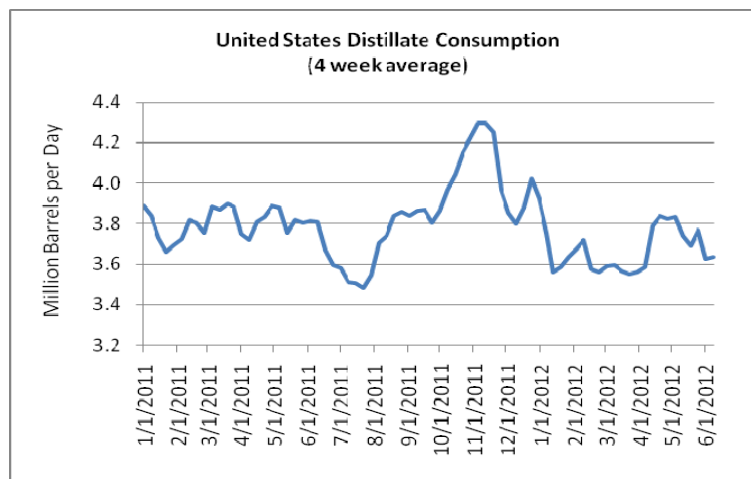
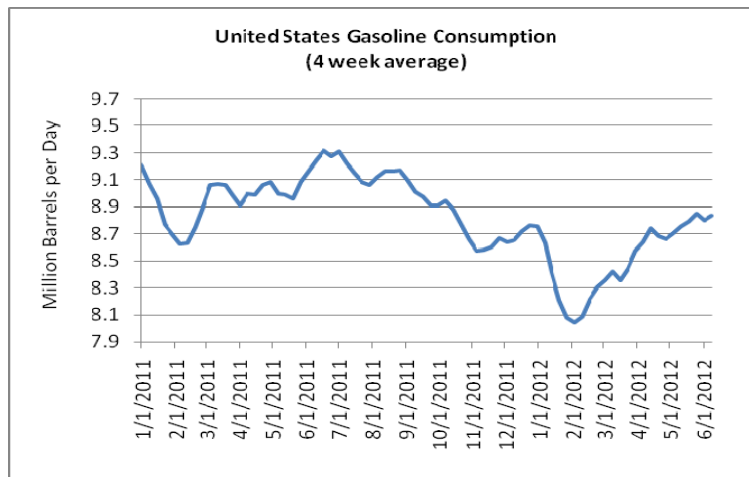
California spot wholesale gasoline prices for regular-grade reformulated blendstock for oxygenate blending (RBOB) fell to \$2.60 per gallon, 52 cents lower than a month ago and a 22 cent decrease over the same time a year ago. Prices in New York also fell, shedding 17 cents over the month and 26 cents off the previous year. Unusually, California wholesale gas is currently trading below New York levels due in part to completion of various refineries' maintenance periods and a resulting build-up of supply.

Mirroring the decline in gasoline spot prices, California average spot wholesale ultra-low-sulfur diesel prices stood at \$2.65, a drop of 1 cent in the past week and 55 cents lower than the price from a month ago.

The average representative estimated cost of **fuel ethanol** to California refiners and marketers fell 8 cents to \$2.24 per gallon as of June 7, 2012.² Wholesale gasoline price declines put downward pressure on ethanol prices. Overall, ethanol prices have remained relatively flat over the past six months.

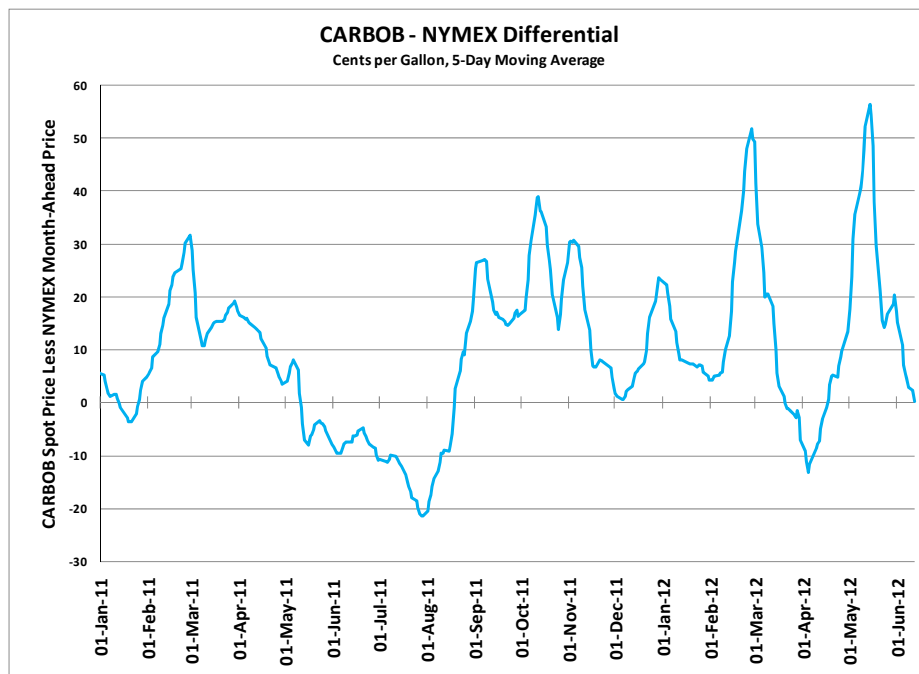


The Energy Information Administration's (EIA) weekly report for the week ending June 8 shows solid gains in consumption of U.S. gasoline and distillate consumption over the previous (albeit holiday-shortened) week, increasing 5.6 percent and 9.1 percent, respectively. The four-week averages, however, are well short of the previous year's levels: gasoline has averaged 8.8 million gallons (a 4.5 decrease from a year ago), and diesel averaged 3.6 million gallons (a 4.6 percent decrease). Lower prices and the start of the summer driving season have failed to bolster demand.



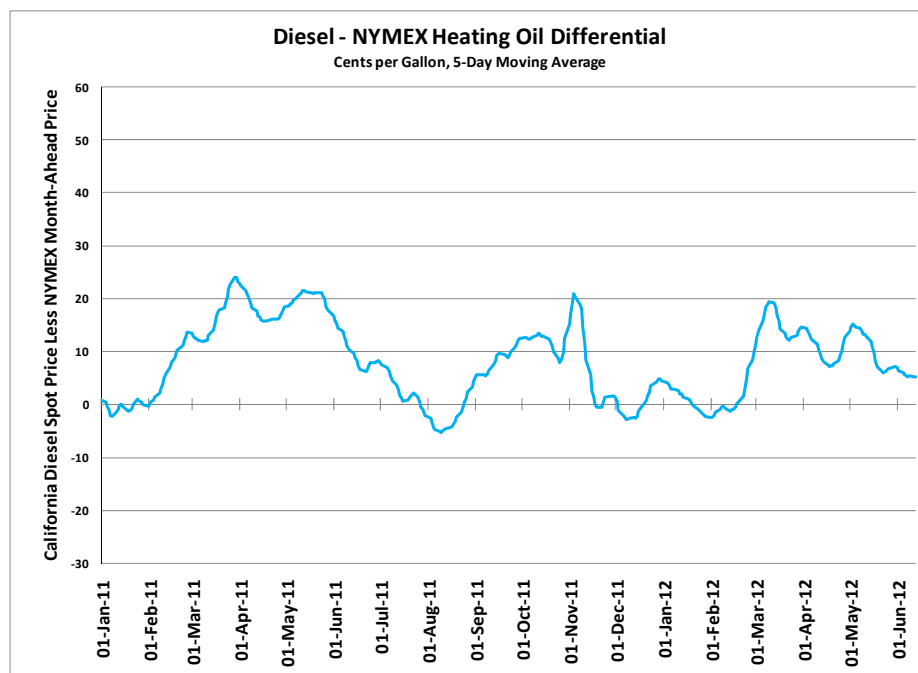
Futures-Spot Market Spread

As of June 12, the spot market price for California gasoline was at parity with the New York Mercantile Exchange (NYMEX) one-month-ahead futures price, using five-day moving averages. This is a remarkable reversal of the spike seen in last month's *Petroleum Watch*, when the CARBOB spot price was at a 49 cent premium. This is the second such reversal in 2012, with both being caused by sharp swings in the CARBOB spot price. The late February peak was primarily due to the fire at the Cherry Point refinery in Washington state and the mid-May peak was due to an unusually large number of California refinery outages. These spikes indicated unexpected shortages and temporarily short supply in the California market.



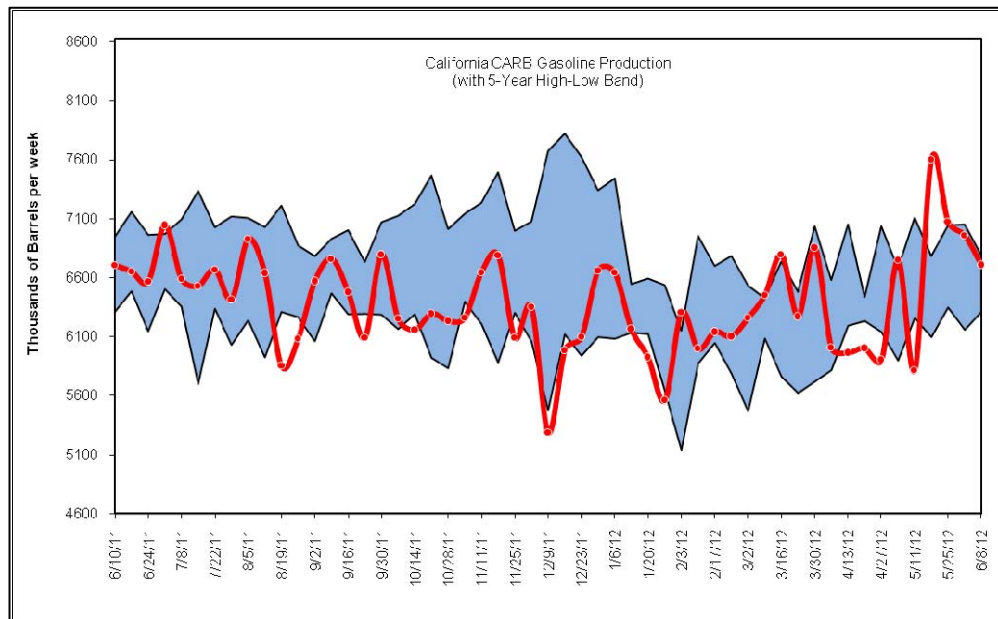
As of June 12, California diesel sold at a premium of 5 cents to the NYMEX heating oil one-month ahead futures price—using five-day moving averages—half the level seen in the May Petroleum Watch, and slightly below the two-year average premium of 8 cents. For over three months, this premium has moved intermittently lower from 19 to 5 cents, showing more moderate movements than seen in the gasoline markets.

In fact, on February 27, the gasoline price differential peaked at 52 cents, the highest differential since May 2006, but the diesel differential stood at 8.5 cents, almost exactly the average for the past two years. This stark difference between the two fuels is due to the relatively high level of diesel inventories at the time of the Cherry Point fire. By the time of gasoline's second price peak on May 14, both diesel and gasoline inventories had been run down, but diesel was only at a 12 cent premium and had been falling for almost two weeks. Production of both fluctuated a fair amount between these spikes, but diesel production trended up while gasoline production remained at the same level. Consequently, there was again unexpectedly tight supply in the California gasoline market, but not in the diesel market.

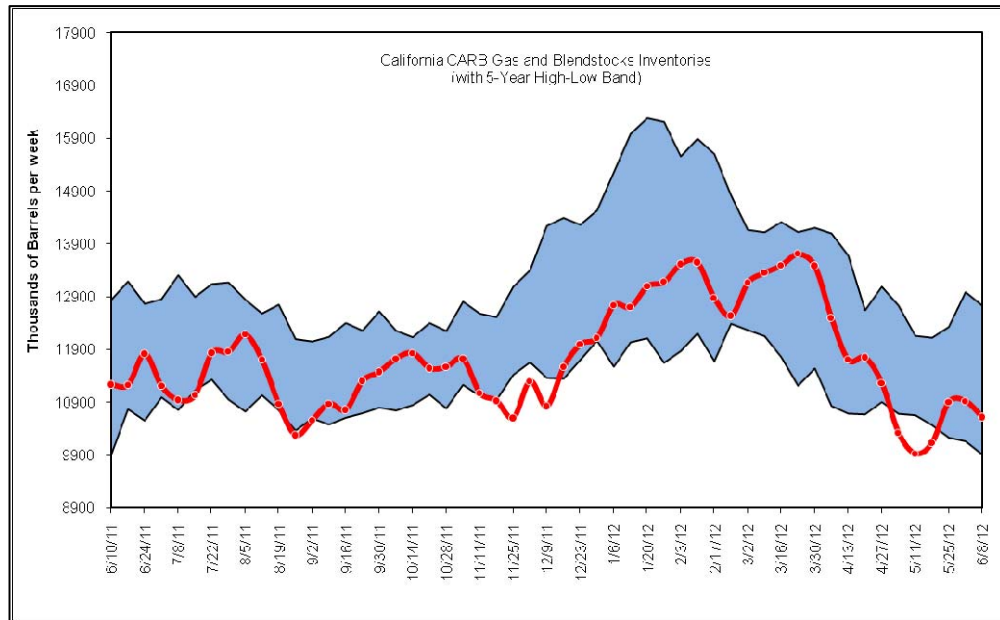


Refinery Production and Inventories

Reformulated gasoline production in California for the week ending June 8 decreased 3.6 percent from the previous week to 6.7 million barrels, falling to the top of the five-year range.³

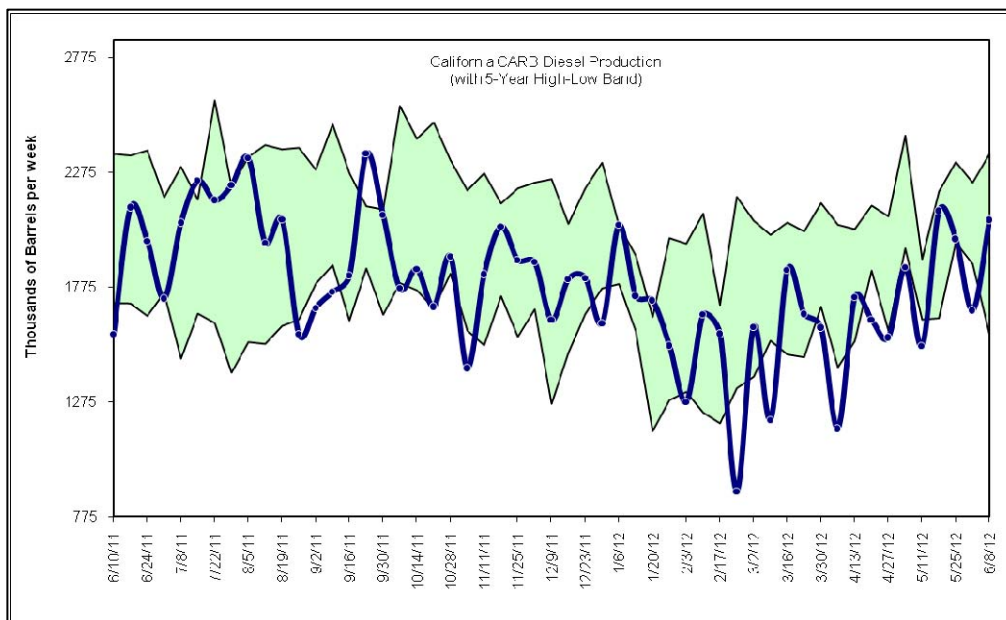


California **reformulated gasoline inventories** decreased 5.5 percent from the past week, while gasoline blendstock inventories decreased 0.5 percent. California's combined inventories of reformulated gasoline and gasoline blendstocks decreased 2.8 percent to 10.6 million barrels, falling to the bottom portion of the five-year range. Gasoline production and inventories have returned to more normal levels, in part due to refineries in California returning to normal operations. However, combined gasoline inventories are still 5.5 percent below where they were this time last year.

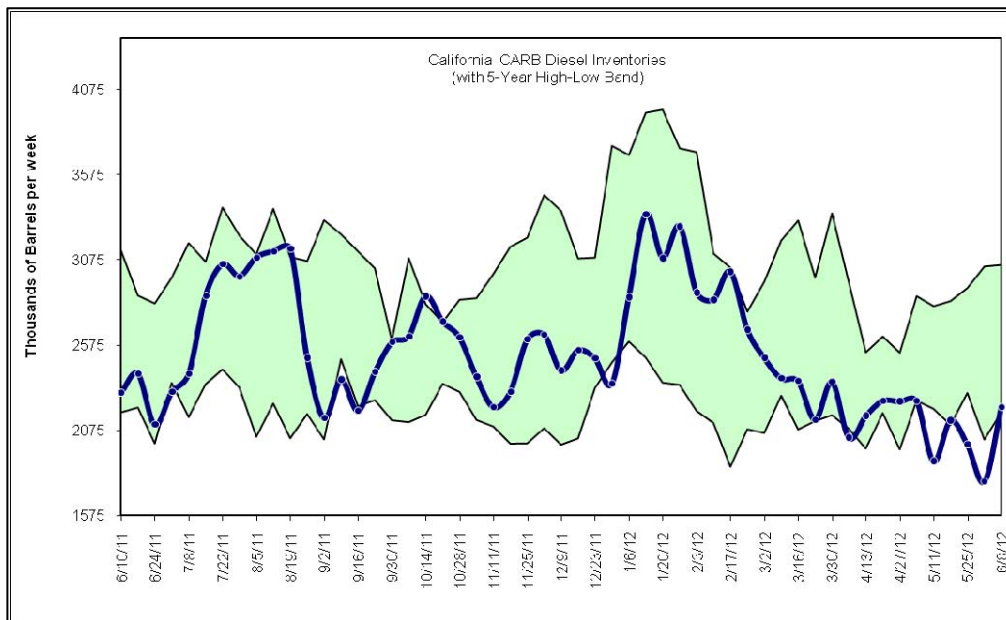


For the United States, gasoline inventories as of June 8 decreased to 201.8 million barrels, 1.7 million barrels fewer than the previous week. Inventories decreased by 1.0 million barrels on the East Coast and 1.8 million barrels on the Gulf Coast but increased by 1.2 million barrels on the West Coast. One of the reasons for increases in West Coast inventories is due to refineries coming back from maintenance.

California-compliant **ultra-low-sulfur diesel fuel (CARB diesel) production**⁴ was 2.1 million barrels during the week ending on June 8, an increase of 23.5 percent from the previous week, rising to the middle of the five-year range. Diesel production has generally been rising since March, increasing 73 percent from three months ago.



Inventories of CARB diesel in California increased 24.6 percent from the previous week to 2.2 million barrels, rising to the bottom of the five-year range.



U.S. distillate inventories as of June 8 fell to 120.0 million barrels, 0.63 million barrels less than the previous week. Inventories decreased by 0.80 million barrels on the East Coast and 0.20 million barrels on the West Coast but rose by 1.3 million barrels on the West Coast.

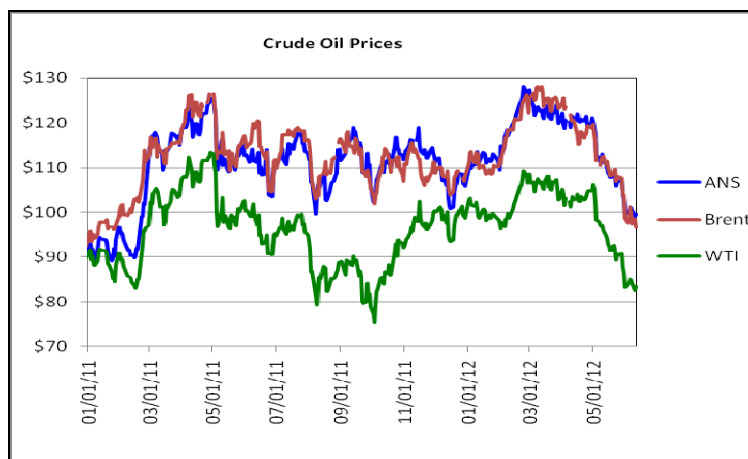
Crude Oil Prices and Associated Factors

West Coast prices for ANS crude oil, a refinery feedstock for California, fell to \$99.57 as of June 12. Prices have fallen \$10.31 since the previous *Petroleum Watch* and are \$11.68 lower than a year ago.⁵ ANS crude oil price changes are influenced by inventory levels, refinery capacity, domestic and international economic conditions, currency exchange rates, perceived risks to global supply such as unrest in the Middle East, and near-term price trends as indicated by the futures market for crude oil. Increased inventories have also pushed prices down.

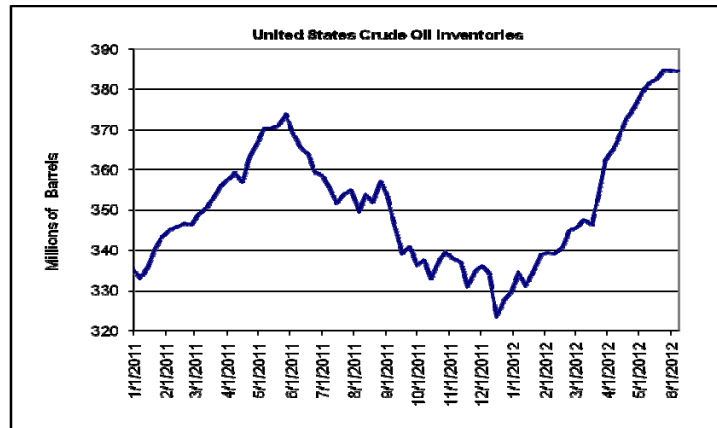
Recent Trends in Crude Oil Prices

	May 2012	June 2012	Change from previous Month	Directional Contributing Factor		
				Upward	Downward	Unchanged
ANS Crude Oil Price (U.S. Dollars /Barrel)	\$109.88	\$99.57	Down 9.4%			
Europe Brent Crude Oil Price (U.S. Dollars/Barrel)	\$112.24	\$96.59	Down 13.9%			
West Texas Intermediate, Cushing Oil Price (U.S. Dollars/Barrel)	\$93.97	\$83.35	Down 11.3%			
U.S. Crude Oil Inventories (MM Barrels)	381.6	384.4	Up 0.7%		✓	
S&P 500	1,331	1,324	Down 0.5%		✓	
EURO STOXX 50 Price	2,311	2,308	Down 0.1%			✓
Total Dollar Index	81.2	82.4	Up 1.4%		✓	
Exchange rate: Dollars per Euro	1.27	1.25	Down 1.6%		✓	
European Debt Problems						✓

The spread between West Texas Intermediate crude oil prices and the Brent crude oil contracts remains wide, averaging \$16.03 since the last *Petroleum Watch*. West Texas Intermediate-NYMEX futures traded at \$83.35 per barrel as of June 12, \$16.22 less than ANS crude oil.



U.S. crude oil inventories have decreased over the past week. As of June 8, U.S. commercial crude oil inventories fell by 191,000 barrels from the previous week to 384.4 million barrels. Although slightly decreased from the previous week, inventories remain at very high levels. U.S. crude oil inventory increases have been driven by oil inventory increases in Cushing, Oklahoma. Crude oil stocks are 18.9 million barrels more than a year ago and 37.5 million barrels more than the five-year average for this date. California crude oil stocks rose 3.7 percent from the previous week to 15.5 million barrels and are 5.4 percent more than a year ago.



¹ Retail gasoline and diesel prices and U.S. crude oil and product inventory estimates are from the Energy Information Administration of the U.S. Department of Energy.

² Ethanol railcar prices are from *Platts Oilgram* and are average prices for prompt Southern California shipments minus a 45¢/gal federal excise tax credit for 2009 through 2011 prices and a 51¢/gal federal excise tax credit for prices prior to 2009. The federal excise tax credit expired at the end of 2011. California alkylate prices are also calculated from *Platts Oilgram* and include a 20¢/gal transportation and distribution cost from Gulf Coast to California. Spot wholesale prices for regular-grade California reformulated gasoline blendstock for oxygenate blending (CARBOB) are from Oil Price Information Service.

³ California refinery production and inventory information is from the Petroleum Industry Information Reporting Act (PIIRA) database maintained by the California Energy Commission.

⁴ Staff has discontinued the reporting of combined CARB and EPA diesel production and inventories and will report only CARB diesel as of December 2009. EPA diesel is primarily for export from California.

⁵ Alaska North Slope (ANS) crude oil prices are from *The Wall Street Journal*. Brent and West Texas Intermediate (WTI) crude oil prices are from the Energy Information Administration.